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AUTOMOTIVE

# Automakers ditch subscription services as market evolves

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*Audi is one of the brands discontinuing its subscription service. Image credit: Audi*

By SARAH RAMIREZ

More luxury automakers are moving away from elevated subscription services after failing to gain traction among consumers.



Starting in 2017, automakers including Porsche and Mercedes-Benz began experimenting with subscription ownership models in an attempt to reach younger affluents who were less interested in traditional methods car leasing or buying. Now BMW and Audi are the latest automakers to cease offering subscriptions.

"We've been skeptical that these were going to be able to work from the beginning," said Tyson Jominy, vice president for data and analytics at J.D. Power, Nashville. "Subscriptions are priced too high, so consumers simply cannot afford them."

State of auto subscriptions

According to *Automotive News*, both BMW and Audi are discontinuing vehicle subscriptions. Fellow German automaker Mercedes-Benz ended its own similar offering in summer 2020.

Unlike traditional purchasing, financing or leasing options, subscription models typically consist of one all-inclusive cost that covers renting vehicles, as well as insurance, taxes and maintenance.

"Subscription programs typically start around $1,000 per month, but only 5 percent of all leases in the industry are that point or higher, while leases are typically about 30 percent of industry sales," Mr. Jominy said. "Not only that, the subscription program typically includes several models from which a consumer could switch around, but since the depreciation costs are so high for automakers, the models tend to be from the lower tiers of the portfolio."

The length of commitment varies among subscription services, which were typically piloted in key markets before expanding elsewhere.


*Luxury vehicle subscription services often touted flexible options. Image credit: BMW*

In summer 2019, Mercedes-Benz had expanded its Collection subscription offering to Atlanta, GA after initially launching in Philadelphia and Nashville, TN (see story). Within a year, however, the Mercedes-Benz Collection had unceremoniously stalled.

"I'm not surprised that vehicle subscription services did not gain traction in the marketplace," said Julie Blackley, communications manager at iSeeCars, Boston. "It shows that the niche audience of affluent consumers who could afford to own or lease a luxury car, but would rather have the subscription service was not enough to sustain the service.

Access by BMW, which services Nashville, confirmed it is shutting down at the end of January. The Audi Select site also confirms it will end on Jan. 31, and the service is no longer accepting applications from Dallas-area drivers.

"Audi Select was launched as a pilot program and has provided valuable insights into car ownership alternatives," said Stephan Zeh, head of mobility services at Audi, Austin, TX. "Audi is now focusing on contractual flexibility and easy accessibility that is at the core of the Silvercar program.

"Audi dealerships are now offering Silvercar as a way to build on the premium level of service our dealerships provide all Audi customers," he said. "Silvercar by Audi was impacted by COVID a decision was made to pivot the business and bring the service exclusively to dealerships and bolster local travel."

Other vehicle subscriptions remain operational, though some have been rebranded.

Porsche Passport is now Porsche Drive, which is available in select markets in the U.S. and Canada, including Atlanta, Las Vegas, Los Angeles and Toronto. The Lexus Complete subscription, which originally launched in seven states, now appears to only be available in Seattle, WA and San Jose, CA.

In the United Kingdom, Jaguar Land Rover's Carpe program has been rebranded as Pivotal and continues to service mainland Britain.

Subscription packages are usually priced on a tier system and often require activation fees, similar to down payments.

For instance, a Porsche Drive single-vehicle subscription for a Macan starts at monthly fee of $1,500, but a 911 costs $2,600 a month. The top tier multiple-vehicle subscription, which includes access to a 911, runs $3,100 a month.

Porsche Drive subscribers making a three-month commitment see their $595 activation fee waived.

*Porsche Drive has single-vehicle and multiple-vehicle subscription options. Image credit: Porsche*

The Blue subscription package from Jaguar Land Rover costs 750 pounds, or about $1,023, a month and gives drivers access to the Discovery Sport, Range Rover Evoque and Jaguar F-Pace models. The Ultra Violet package, the top tier from Pivotal, has a monthly fee of 1600 pounds, or about $2,180, for access to several more models including the Range Rover.

"In practice, for the ability to trade between an entry lux sedan, convertible or SUV, a consumer is paying Escalade or Range Rover monthly lease prices," Mr. Jominy said.

These subscription services had originated based on the idea that traditional vehicle ownership did not appeal as much to younger consumers (see story), but some industry experts believe this may have been a miscalculation.

"I think that many affluent consumers who rely on rideshare services do so because they are practical and do not want to own a car likely because they live and work in the city," Ms. Blackley said. "There is a major difference between paying extra to avoid public transportation versus paying thousands of dollars a month on a car that could be leased for less."

Next steps?
There is the possibility that some of these services may be revamped and resurrected.

For instance, last fall Audi introduced its reLease program with short-team lease agreements running between six and 18 months. Only available in the Washington and Maryland markets, the program was launched to meet the need of affluents avoiding public transportation amid the pandemic and related lifestyle changes.

"Audi reLease provides new Audi drivers with flexible access points into the brand without the commitment of a longer-term contract," Audi's Mr. Zeh said.

It is yet another example of how the COVID-19 has changed the trajectory of several sectors, including the automotive industry.

With the sudden and swift rise of remote work, many financially secure workers now find themselves with the ability to work anywhere rather than be limited to large cities with more job opportunities.

In the United States, affluents are leaving urban centers for nearby suburbs or warm weather destinations. For instance, the Hamptons and Connecticut saw their strongest real estate performance as wealthy New Yorkers made the decision to leave the city (see story).

This also means that more consumers find themselves needing to purchase vehicles as they embrace suburban settings.

"The pandemic has led to many consumers buying cars for the first time because they are fleeing cities or because they want to avoid rideshare and public transportation," iSeeCars' Ms. Blackley said. "People who haven't been financially impacted by the pandemic are buying sports cars and convertibles for a source of enjoyment during the lockdown."

While car sales dipped in the spring, transaction prices have grown consistently as inventory remains tight amid persistent demand.

According to J.D. Power, year-over-year, retail sales of premium sports cars and super premium cars are up 6 and 10 percent, respectively outperforming all other vehicle segments, including premium SUV in different size classes (see story).


*Car buying is up among consumers 35 years and younger. Image courtesy of J.D. Power*

Furthermore, the younger consumers these services tried to reach are the same demographic returning to the market at the greatest rate, per Mr. Jominy.

"The pandemic shifted who is in market," Mr. Jominy said. "Young consumers were hit especially hard by the economics of the recession but now appear to be getting back on their feet."